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SUBJECT: International Regulatory Cooperation top theme at Luncheon
for Frankfurt Financial Leaders

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11. Summary: (SBU)CG Alford hosted a luncheon at his residence on September 16, 2009 for Ambassador Philip Murphy and leaders from the Frankfurt financial community. Guests discussed a variety of political and financial issues, with a focus on maintaining good relations between governments during the financial crisis. Some participants requested two main things of the United States: to be wary of protectionism during these economically uncertain times; and to have another 'Transatlantic Economic Forum' which was held a few years ago in Berlin and focused on trade between Germany and the US.
End Summary

List of Invitees

(SBU)The luncheon hosted by Consul General Edward A. Alford in honor of Ambassador Philip Murphy was attended by:

Johann Berger, Member of the Board of Directors of Helaba state bank
Hessen-Thuringia;
Martin Blessing, Chairman of the Board Commerzbank;
Clemens Boersig, Chairman of the Supervisory Board of Deutsche Bank;

Andreas Dombret, Vice Chairman Europe for Bank of America;
David Knowler, Chief Operating Officer of Cerberus Capital Management
Germany;
Nader Maleki, President, International Bankers Forum;
Konstantin Mettenheimer, Senior Partner of Freshfields Bruckhaus
Deringer;
Friedrich von Metzler, Managing Director of Metzler Bank;
Steffen Sachse, Senior Advisor of the Federal Agency for Financial
Market Stabilization (SoFFin);
Hugh Sullivan, Head of Investment Banking Germany, Austria,
Switzerland Merrill Lynch;
Jean-Claude Trichet, President of the European Central Bank.

High Marks for Crisis Management by Central Banks

12. (SBU)All members present gave high marks to the rapid and determined action taken by central banks during the crisis. The President of the European Central Bank, Jean-Claude Trichet, added that he was equally impressed by the decisive and united response of political decision makers which he considered unprecedented and a testimony to the progress that has been made in international cooperation. He and others claimed, however, that better regulation was still needed in order to prevent future crises, and that the window of opportunity to make those changes was closing fast.

Strong Transatlantic Relationship without Protectionism

¶3. (SBU)Participants agreed that the German-American relationship was strong. Mr. Boersig of Deutsche Bank, however, thought that the relationship should be continually strengthened by ongoing discussions. He specifically requested that the United States and Germany hold another "Transatlantic Economic Forum", which was first held in Berlin in the fall of 2007. Organized by the American Academy, it included top political and financial leaders from both sides of the Atlantic who discussed relevant financial issues between our countries.

¶4. (SBU)Boersig also noted that the US should be wary of protectionism, which is a common reaction for all countries during economically difficult times. Mr. Trichet, of the ECB, echoed this sentiment saying that he was gravely concerned that protectionist measures would actually endanger the recovery.

The Recession in the US is Technically Over

¶5. (SBU)Asked about his assessment of Bernanke's statement that the U.S. recession "is very likely over," Trichet emphasized that Bernanke was careful to point out that the recession was only technically over. Although the markets and the media love good news, the economic outlook remains uncertain. The ECB expects recovery to be uneven, as stimulus measures currently are buoying economic data and it remains to be seen if economic growth will remain stable once these measures run out.

¶6. (SBU)Trichet went on to point out that though the financial crisis has revealed the enormous fragility of the global financial system, little progress has been made in stabilizing it. While both

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the capital and the money markets are recovering, they have not come back to pre-crisis levels. Boersig added that German banks in particular are vulnerable because of the lack of fluidity between the three branches of the German banking system (commercial banks, state banks, and savings and cooperative banks).

¶7. (SBU)Trichet noted that in the Euro zone economic imbalances continue to occur, but they are not a reason for concern. The range of deviations between European countries, Trichet said, mirror the range of economic variety throughout various parts of the United States, whose economic model the ECB had studied thoroughly before introducing the Euro. If anything, Trichet feels that the eurosystem has facilitated the management of the crisis.

Reducing the Relative Importance of the Banking Sector

¶8. (SBU)Eighty percent of European companies depend on banks for their financing versus twenty percent of U.S. companies. Mr. Boersig, Johann Berger of Helaba Bank, and Martin Blessing of Commerzbank agreed that this percentage needs to be lowered and that more German companies ought to finance themselves through the capital market. This appears to be happening this year as German corporations have issued a record number of corporate bonds (200 billion Euros) in order to raise money. Furthermore, these bond issuances, all agreed, appear not to be prompted by insufficient credit availability, but rather by low interest rates and companies' increased willingness to take risk. However, the majority of German companies are too small to raise money on the capital market.

¶10. (SBU)Mr. Blessing stated that in Germany insurance companies may also be contributing to a shortage of credit, not just banks, because insurance companies collect much of the savings. These companies, however, tend to be risk averse, which leads them to invest primarily in sovereign bonds, thereby reducing the flow of capital in the market.

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